

# Survey on Inflation and Growth Expectations

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[www.bancaditalia.it/statistiche/index.html](http://www.bancaditalia.it/statistiche/index.html)

## Main results

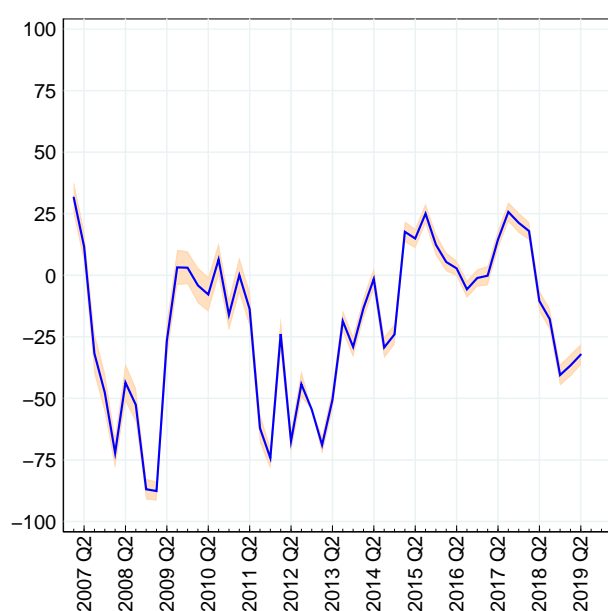
According to the survey conducted between 27 May and 14 June 2019 among Italian industrial and service firms with 50 or more employees, opinions regarding the current general economic situation remained negative overall, although less so than in the survey conducted in March. Firms' expectations of their own operating conditions in the short term were unchanged at slightly negative values. However, expectations in the construction sector improved thanks to better opinions regarding the trends in building sites. Firms' assessments of current demand are still negative but less so than in the previous quarter. Short-term demand expectations nevertheless deteriorated, weakened mostly by the performance in foreign markets, which was particularly negative for industrial firms in the North of Italy.

As in the last survey, trade tensions continue to have an adverse effect on demand expectations. Expenditure plans indicate increased investment in the second half of this year compared with the first six months, which would lead to a positive change in investment overall in 2019, in line with that forecast in the previous survey. In all sectors, however, opinions on the current investment conditions continue to worsen, albeit at a slower pace. Employment expectations remain favourable, especially in the construction sector.

Consumer price inflation expectations were revised upwards over all time horizons and in all sectors, most likely as a result of the growth in consumer prices observed in the latest official data. For the next 12 months, firms still expect only moderate growth in their own prices: the push coming from the cost of labour and raw materials contrasts the effects of competition and the lack of support from demand.

### General state of the economy (1)

(balance between positive and negative assessments with respect to the previous quarter)



### Consumer price inflation expectations over the next 12 months (1)

(percentage changes on the preceding 12 months)



(1) The shaded areas represent the 95% confidence intervals. Construction firms are included from 2013 Q3. See Tables s1 and s4 of the statistical appendix.

## Survey on Inflation and Growth Expectations<sup>1</sup>

### **Assessments of the current state of the economy remain mostly negative**

In the second quarter of 2019 the balance between assessments of an improvement and of a deterioration in the general economic situation remained in deeply negative territory at -32.2 points, though it narrowed slightly compared with the first quarter of 2019 and the fourth quarter of 2018, when it stood at -36.7 and -40.5 points respectively. The change in the balance is entirely ascribable to the opinions of non-construction industrial firms (for which the balance now stands at -32.0 points, from -41.7 points). The balance remained unchanged for services (-33.1 points) and fell further for construction firms, in particular those that work less frequently in the residential housing sector. Firms' expectations for the next three months remained stable: the average probability of an improvement in the general economic situation fell slightly and, once again, a 44 per cent share of firms considered the possibility of an improvement to be zero.

### **Assessments of their own operating conditions at 3 months are unfavourable**

The balance between expectations of an improvement and those of a deterioration in firms' own operating conditions in the short term remained broadly unchanged at -5.2 percentage points, down from -5.9 points). The slight deterioration in manufacturing was offset by the less negative assessments made by service firms and the more favourable ones made by construction firms, for which the balance turned positive after three negative quarters (Figure 1). As in the previous survey, firms' business activities will be influenced mainly by their assessments of demand and, in the case of construction firms, by the current and expected number of construction sites, set against the brake still exerted by the uncertainty surrounding economic and political factors. Negative assessments of demand continue to be affected by trade tensions.

### **Assessments of current demand are less negative, while 3-month expectations have instead weakened**

Assessments of the performance of demand in the last three months are less negative overall but reflect the differences between sectors: the balance between expectations of an increase and of a reduction in demand went up further in the construction sector while it remained negative for non-construction industry and services (Figures 2.1, 2.2 and 2.3). Assessments of foreign demand continue to be positive and show a slight improvement compared with the previous quarter (the balance has risen by 3.8 percentage points compared with 2.3 points). Demand expectations for the next quarter continue to point to a growth in sales although at a slower pace than forecast in the previous survey: the balance between expectations of a rise and of a fall in demand narrowed to 7.8 percentage points (down from 10.5 points). This trend reflects the forecast of a sharp weakening of foreign demand: the balance fell to 14.0 percentage points (from 24.8 points), the lowest level since the end of 2012, mostly reflecting the fall of almost 15 percentage points reported by industrial firms in northern Italy.

### **Investment plans for 2019 are still expected to be positive, supported by growth in the second half of the year ...**

The balance between expectations of an increase and of a decrease in nominal investment expenditure in 2019 compared with 2018 has remained stable overall (6.8 percentage points compared with 6.4 points in March), confirming the more favourable expectations in the service sector (for which the balance stands at 12.6 points). Nevertheless, in the construction sector there was a further, small, decline: the revision of investment plans is mainly due to the assessments of firms with less work in the residential sector headquartered in the Centre or the South and Islands. Firms plan to increase investment spending in the second half of 2019 compared with the first: the balance stands at 13 percentage points, driven mainly by non-construction industrial firms and construction firms with high levels of activity in the residential sector (the balance was 0.8 percentage points in the last survey, in reference to the first half of this year compared with the second half of 2018).

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<sup>1</sup>The survey report was prepared by Cristina Conflitti and Marco Bottone.

The survey data were collected exclusively for the purpose of economic analysis and have been processed in aggregate form, in compliance with privacy regulations. We would like to thank the 1,023 firms with 50 or more employees (of which 401 in industry excluding construction, 445 in services and 177 in construction) that participated in the June 2019 survey. The survey questionnaire, the statistical appendix and the methodological note are available on the Bank's website:

[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/en\\_quest\\_II\\_trim\\_2019.pdf?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/en_quest_II_trim_2019.pdf?language_id=1)  
[http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/dati\\_2019\\_06\\_eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/dati_2019_06_eng.zip?language_id=1)  
[http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods\\_and\\_sources.pdf?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/metodi-e-fonti-note/metodi-note-2019/methods_and_sources.pdf?language_id=1)

**... but assessments of current investment conditions remain negative**

Assessments of investment conditions worsened across all sectors: the share of firms reporting that conditions are deteriorating is far greater than the share that thinks they are improving (Figure 3). However, the balance is less negative than it was in the last quarter (-16.6 points, from -22.1). The reduction was greater for firms with a larger workforce, firms in non-construction industry, and those headquartered in the North-West and the Centre.

**Employment expectations are still positive**

The balance between the share of firms planning to increase staff numbers in the next quarter and the share of those that intend to make reductions has fallen from 7.2 to 6.4 percentage points. The fall is ascribable to firms in non-construction industry and in services (for which the balance has narrowed from 7.3 to 6.3 percentage points on average). This was offset by an increase in balance for the construction sector, from 5.5 to 9.0 percentage points.

**Inflation expectations rise, as do those regarding selling prices.**

Compared with the March survey, firms' consumer price inflation expectations rose by an average 0.2 percentage points over all time horizons (to 1.2 per cent at six months, to 1.4 per cent at one year, and to 1.5 per cent at two years and at between three and five years). The expectations were affected by the acceleration in the consumer price index recorded in April (the latest data available at the time of the survey), reflecting higher prices for services in conjunction with the Easter holidays.

Compared with the previous survey, the year-on-year changes in firms' own prices slowed in non-construction industry (down from 1.4 to 0.9 per cent), probably reflecting the deceleration in the prices of energy products and of imported intermediate inputs. Price changes instead accelerated in services and in construction. Firms' expectations of changes in their own selling prices in 12 months' time rose slightly across all sectors – to 1.0 per cent in non-construction industry, to 0.7 per cent in services and to 0.8 per cent in construction (Figures 2.1, 2.2 and 2.3). Labour and commodity costs continue to represent the main factors of stimulus to price growth, while there appear to be downward pressures coming from competitors' pricing policies.

Table 1

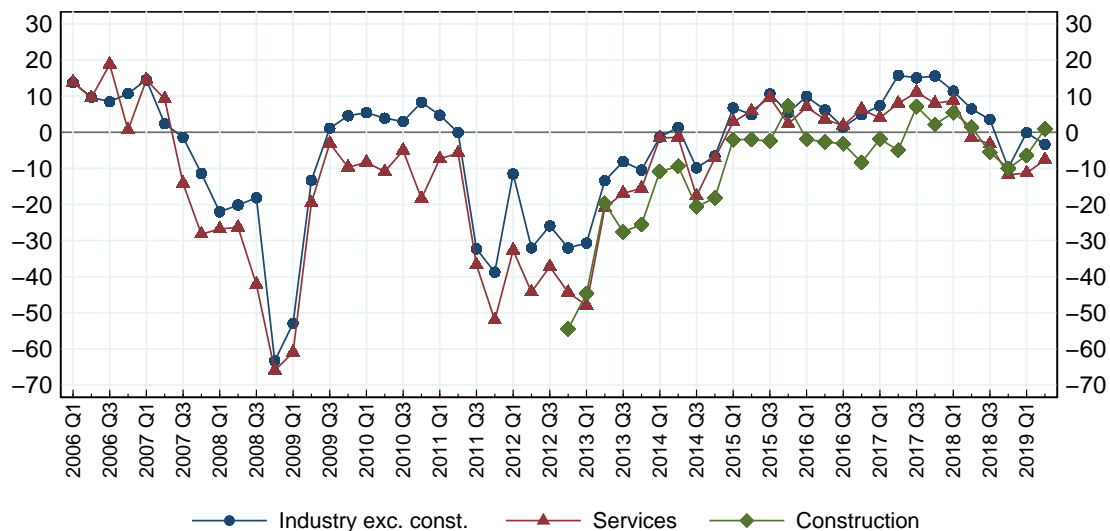
**Main findings (1)**  
(per cent and percentage points)

	Industry exc. const.		Services		Construction		Total	
	2019 Q1	2019 Q2	2019 Q1	2019 Q2	2019 Q1	2019 Q2	2019 Q1	2019 Q2
	<b>per cent</b>							
Inflation expectation 6 months ahead	1.0	1.2	1.0	1.2	1.0	1.2	1.0	1.2
Inflation expectation 12 months ahead	1.1	1.4	1.1	1.3	1.1	1.3	1.1	1.4
Change in own prices 12 months ahead	0.9	1.0	0.6	0.7	0.7	0.8	0.8	0.8
	<b>Balance between reports of improvement and deterioration (percentage points)</b>							
	<b>Judgments on the previous quarter</b>							
General economic situation	-41.7	-32.0	-33.1	-33.1	-24.6	-25.1	-36.7	-32.2
Total demand	-10.3	-10.2	-9.2	-3.5	6.1	12.6	-8.9	-5.8
Foreign demand	3.5	4.2	-0.6	2.6	—	—	2.3	3.8
Investment conditions	-24.0	-14.7	-21.1	-18.8	-15.5	-13.4	-22.2	-16.6
	<b>Forecast 3 months ahead</b>							
Total demand	16.4	10.4	4.5	4.8	14.0	12.2	10.5	7.8
Foreign demand	32.1	16.5	6.5	7.6	—	—	24.8	14.0
Firms' economic conditions	-0.1	-3.3	-11.3	-7.6	-6.4	0.9	-5.9	-5.2
Employment	7.1	5.9	7.4	6.7	5.5	9.0	7.2	6.4
	<b>Forecast of investment expenditure</b>							
H2 2019 on H1 2019	—	14.7	—	12.4	—	3.5	—	13.0
2019 on 2018	0.8	2.1	13.0	12.6	-5.1	-6.3	6.4	6.8

(1) The statistical appendix is available at [http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/dati\\_2019.06.eng.zip?language\\_id=1](http://www.bancaditalia.it/pubblicazioni/indagine-inflazione/2019-indagine-inflazione/06/dati_2019.06.eng.zip?language_id=1)

Figure 1

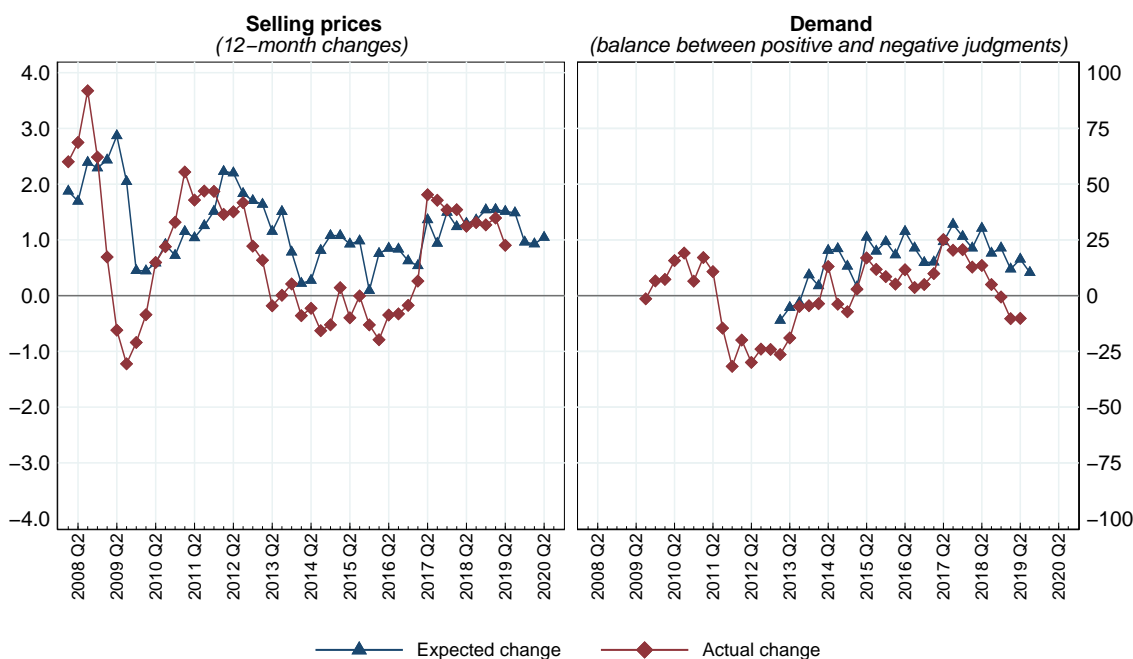
Three-month forecast of the firm's business conditions (1)  
(percentage points)



(1) Balance between expectations of an increase and expectations of a decrease.

Figure 2.1

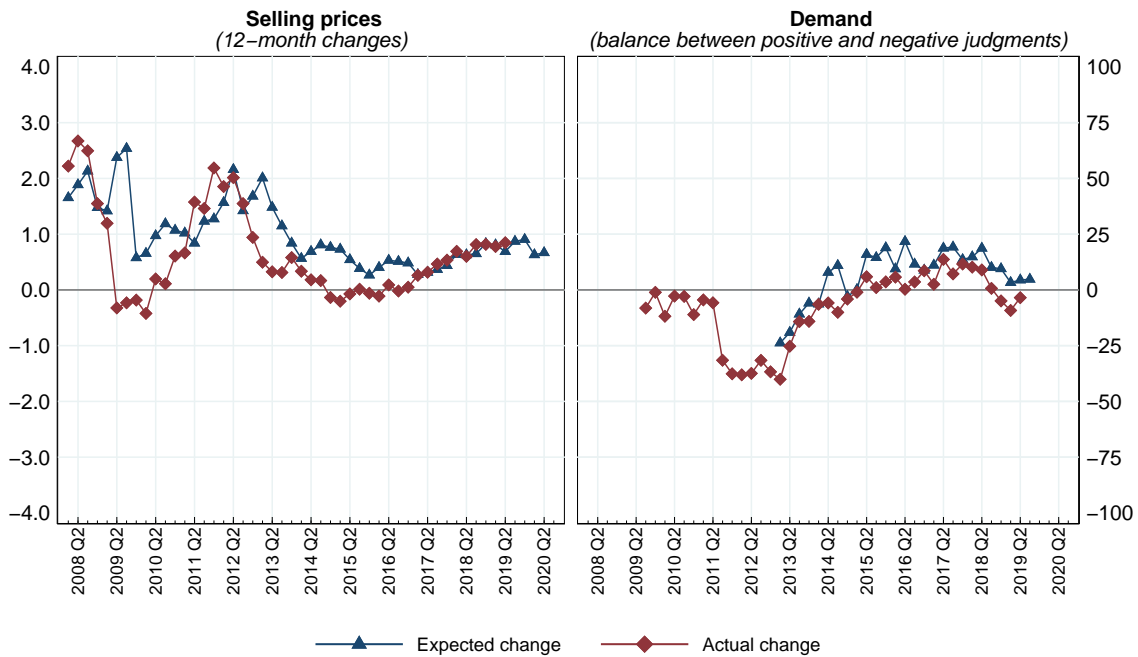
Expected and actual changes in selling prices and demand (1)  
(industry excluding construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 2.2

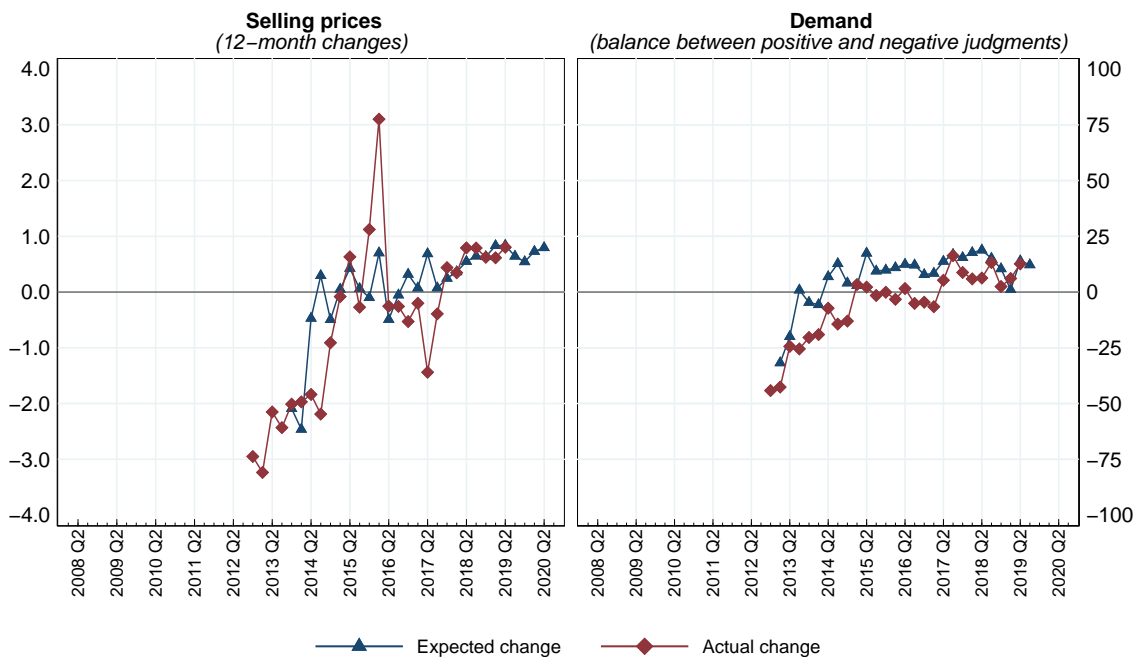
Expected and actual changes in selling prices and demand (1)  
(services)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 2.3

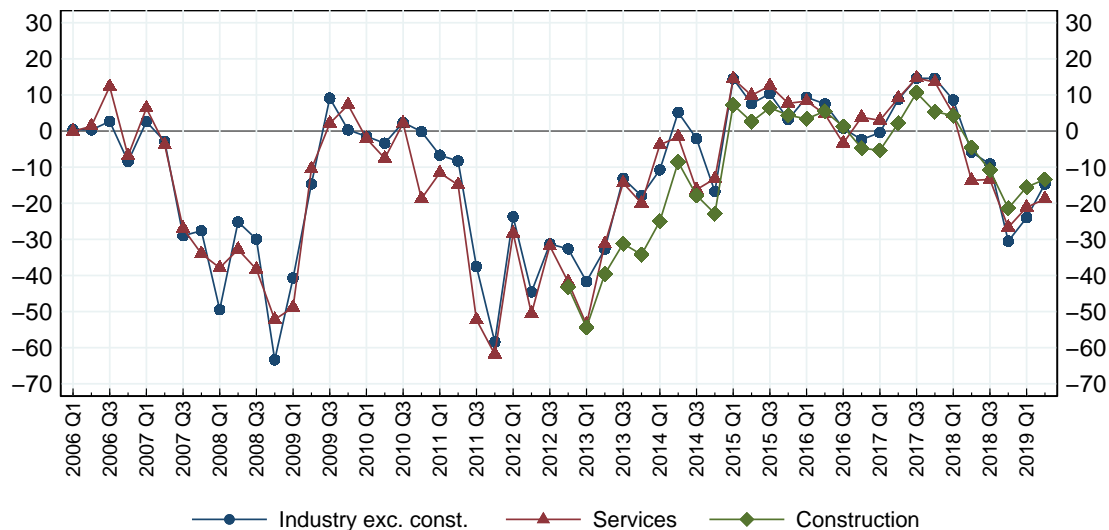
Expected and actual changes in selling prices and demand (1)  
(Construction)



(1) Winsorized estimates: values outside the range between the 5th and the 95th percentiles are set at the threshold values of those percentiles.

Figure 3

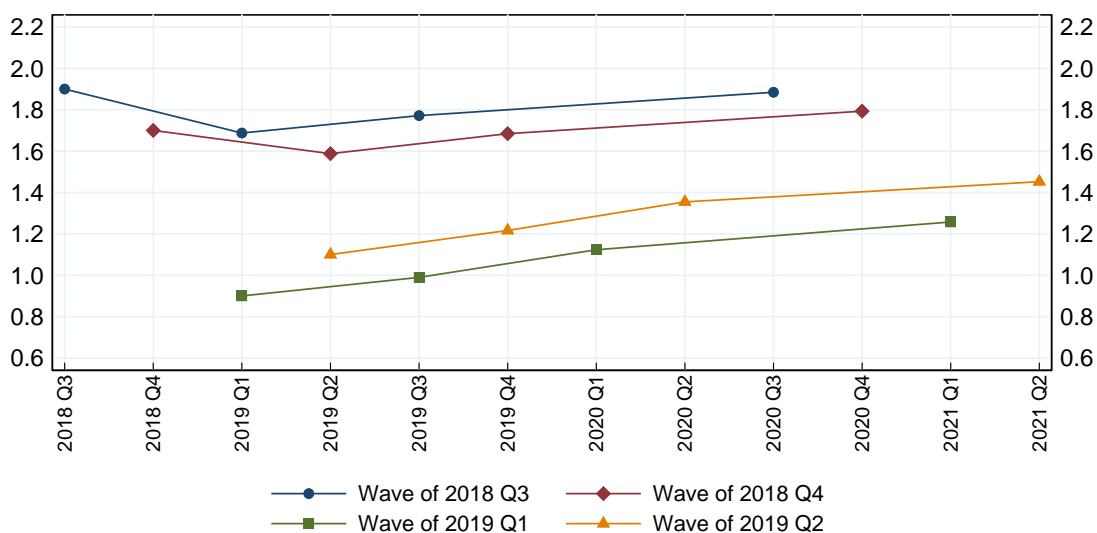
Conditions for investment with respect to previous quarter (1)  
(percentage points)



(1) Balance between positive and negative judgments.

Figure 4

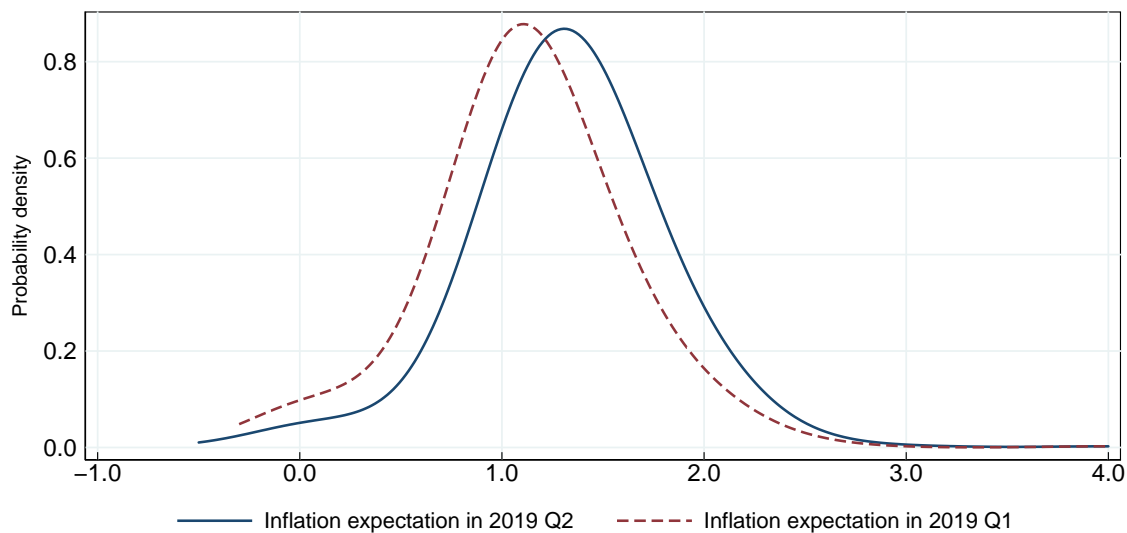
Expectations of consumer price inflation in Italy (1)  
(percentage changes on year-earlier period)



(1) The first point in each curve is the latest definitive inflation data available at the time of the survey, which is given to the interviewees in the questionnaire as a point of reference for expressing their expectations; the second point is the average of the interviewees' forecasts for the next six months; the third point is the average of the interviewees' forecasts for the next twelve months; the fourth point is the average of the interviewees' forecasts for the next twenty-four months.

**Figure 5**

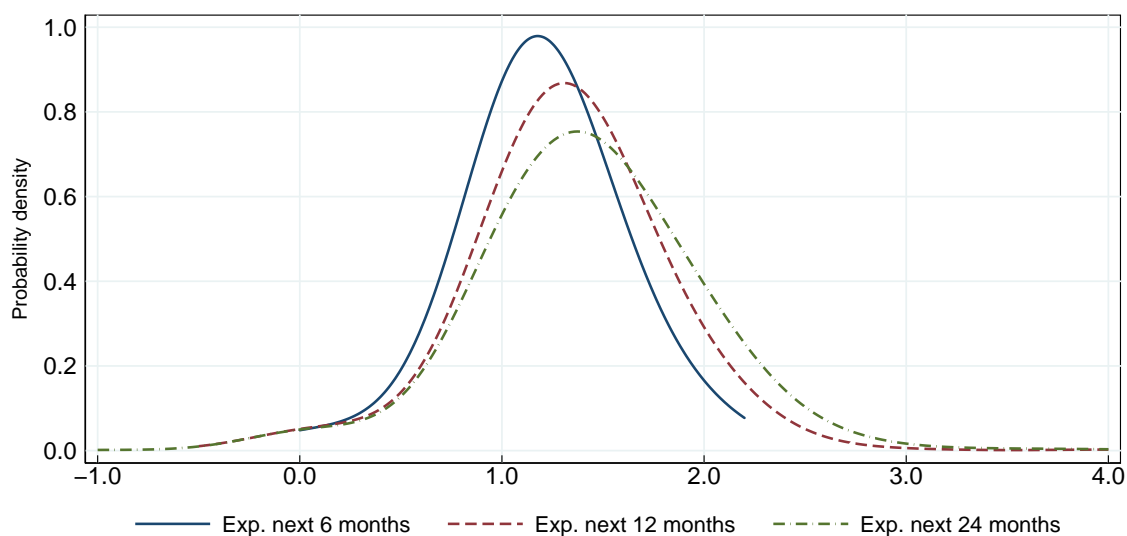
**Expectations of the inflation rate over the next 12 months (1)**  
*(non parametric estimates)*



(1) The estimates are obtained using a Gaussian kernel density with a bandwidth equal to 0.3.

**Figure 6**

**Expectations of the inflation rate over the next 6, 12 and 24 months (1)**  
*(non parametric estimates)*



(1) The estimates are obtained using a Gaussian kernel density with a bandwidth equal to 0.3.



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